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DOD'S HIGH-RISK AREAS

Actions Needed to Reduce Vulnerabilities and Improve Business Outcomes

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Highlights of [GAO-09-460T](#), a testimony to before the Committee on Armed Services, House of Representatives

Why GAO Did This Study

The Department of Defense (DOD) spends billions of dollars to sustain key business operations intended to support the warfighter. In January, GAO released its 2009 high-risk series update report for the 111th Congress. This series emphasizes federal programs and operations that are at high risk because of vulnerabilities to fraud, waste, abuse, and mismanagement and has also evolved to draw attention to areas associated with broad-based transformation needed to achieve greater efficiency, effectiveness, and sustainability. Of the 30 high-risk areas identified by GAO across government, DOD bears sole responsibility for eight defense specific high-risk areas and shares responsibility for seven other high-risk areas—all of which are related to its major business operations.

The Committee asked GAO to provide its views on (1) actions needed to achieve measurable outcomes in DOD's high-risk areas and (2) DOD's progress in strengthening its management approach for business transformation, including establishing the Chief Management Officer (CMO) position. GAO was additionally asked to highlight information regarding the high-risk area related to contract management at the Department of Energy's (DOE) National Nuclear Security Administration.

To view the full product, click on [GAO-09-460T](#). For more information, contact Janet St. Laurent at (202) 512-4402 or stlaurentj@gao.gov or Paul Francis at (202) 512-2811 or francisp@gao.gov

DOD'S HIGH-RISK AREAS

Actions Needed to Reduce Vulnerabilities and Improve Business Outcomes

What GAO Found

Longstanding weaknesses in DOD's business operations adversely affect the department's economy, efficiency, and effectiveness, and have resulted in a lack of adequate accountability. As a result, DOD continues to experience cost growth in many of these areas and wastes billions of dollars annually that could be freed up for higher priority needs. DOD's senior leadership has shown a commitment to transforming business operations, and taken many steps to address weaknesses. However, additional actions are needed to achieve and sustain progress.

Business Area	Impact on department and warfighter
Weapon Systems Acquisition	Major defense acquisition programs continue to take longer, cost more, and deliver fewer quantities and capabilities to the warfighter than planned. Compared to initial estimates, costs for DOD's fiscal year 2007 portfolio of 95 major programs grew by \$295 billion or 26 percent. On average, current programs experienced a 21-month delay in delivering initial capabilities, reflecting a 5-month increase over fiscal year 2000 programs.
Contract Management	From fiscal years 2001 and 2008, DOD's obligations for contracts have more than doubled to \$387 billion, but its workforce that manages and oversees contracts grew by only about 1 percent. As the largest civilian contracting agency, DOE spends about 90 percent of its budget on contracts. Weaknesses in contract management at both DOD and DOE, such as unsound business practices, inadequate numbers of oversight personnel, and the lack of training result in increased costs and risks.
Supply Chain Management	DOD has been unable to consistently meet its goal of delivering "the right items to the right place at the right time" to support the deployment and sustainment of its forces. Also, the military services have billions of dollars in excess inventory due to weaknesses in forecasting demand. For fiscal years 2004 to 2007, the Army and Navy held a combined annual average of \$11 billion in inventory that was excess to requirements.
Financial Management	System deficiencies and other pervasive challenges in DOD's financial management operations impact its ability to control costs, ensure accountability, and measure performance, thus limiting DOD's ability to prevent and detect fraud, waste, abuse, and improper payments. To date, none of the military services have received favorable financial statement audit opinions.

Source: GAO

DOD has taken some steps to establish the CMO and other key positions, but still lacks some critical elements to strengthen its management approach. The National Defense Authorization Act for Fiscal Year 2008 codified the CMO position, created a Deputy CMO, directed that CMO duties be assigned to the Under Secretary of each military department, and required a strategic plan for business operations. DOD has yet to clearly define the roles, responsibilities, and relationships among key positions, including the Deputy CMO and military department CMOs. Also, its first plan, issued in July 2008, lacks clear goals, objectives, and performance measures. As DOD's approach continues to evolve, GAO remains open to the possibility of further progress. However, because of the roles and responsibilities currently assigned to key positions, it is still unclear whether DOD will provide the long-term sustained leadership needed to address significant challenges in its business operations.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to be here today to discuss the Department of Defense's (DOD) high-risk areas and why further action is needed to enhance and sustain progress in transforming DOD's business operations. For almost two decades, we have reported on pervasive and longstanding weaknesses in DOD's business operations that affect its efficiency and effectiveness, leaving it vulnerable to billions of dollars of fraud, waste, and abuse annually. As a result, DOD continues to dominate our list of high-risk federal programs and operations, bearing responsibility, in whole or in part, for half of the 30 areas cited in our January 2009 high-risk series update report.¹ As table 1 indicates, eight of these fifteen areas are specific to DOD and seven are governmentwide areas that apply to DOD. Collectively, these high-risk areas relate to DOD's major business operations that are inextricably linked to the department's ability to perform its overall mission, directly affect the readiness and capabilities of U.S. military forces, and can affect the success of a mission.

Table 1: High Risk Areas Involving the Department of Defense

Defense-specific	Governmentwide areas that apply to DOD
DOD Approach to Business Transformation	Strategic Human Capital Management
DOD Weapon Systems Acquisition	Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures
DOD Contract Management	Managing Federal Real Property
DOD Supply Chain Management	Establishing Effective Mechanisms for Sharing Terrorism-Related Information to Protect the Homeland
DOD Financial Management	Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests
DOD Business Systems Modernization	Management of Interagency Contracting
DOD Support Infrastructure Management	Improving and Modernizing Federal Disability Programs
DOD Personnel Security Clearance Program	

Source: GAO.

DOD is entrusted with more taxpayer dollars than any other federal agency, representing a large part of the discretionary spending of the U.S. budget. For example, Congress provided DOD with about \$512 billion in annual appropriations for fiscal year 2009 and recently passed the

¹GAO, *High-Risk Series: An Update*, [GAO-09-271](#) (Washington, D.C.: January 2009).

American Recovery and Reinvestment Act² that contains nearly \$12.6 billion for DOD for military construction, environmental restoration, and other purposes. In addition, since 2001, DOD has received about \$808 billion in supplemental emergency funding for the Global War on Terrorism, including support for ongoing military operations. Given the growing longer-range fiscal imbalance facing our nation, DOD will increasingly have to compete for constrained resources and cannot afford to continue to conduct “business as usual” and miss opportunities to achieve greater efficiencies and free up resources for higher priority needs.

Common to all of DOD’s high-risk areas is the need for sustained, senior level leadership and a more strategic decision-making approach to ensure that programs and investments are based on plans with measurable goals, clear objectives, validated requirements, prioritized resource needs, and performance measures to gauge progress. Because of the complexity and magnitude of the challenges facing the department in improving its business operations, we have long advocated the need for a senior management official to provide strong and sustained leadership. As a result of legislation passed in the 110th Congress³, under the leadership of this committee and many others, DOD now has a Chief Management Officer (CMO) who is statutorily responsible and accountable for the department’s overall business transformation efforts.

My testimony today will discuss (1) additional actions needed to achieve measurable outcomes in selected high-risk areas and (2) DOD’s progress in strengthening its management approach for business transformation, including establishing the CMO position. In particular, I will focus my remarks on the defense-specific areas of weapon systems acquisition, contract management, supply chain management, financial management, and the defense-related aspects of the governmentwide areas of strategic human capital management, protecting technologies critical to U.S. national security interests, and protecting the federal government’s information systems and critical infrastructure. As you requested, I will also highlight information regarding contract management challenges at the Department of Energy’s (DOE) National Nuclear Security Administration (NNSA), which is also a high-risk area. Details on all of the

²American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5 (2009).

³ National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, §904 (2008).

high-risk areas involving DOD and DOE, as well as the rest of the federal government can be found in our *January 2009 High-Risk Series* update.

In preparing this testimony, we relied on our extensive body of work on DOD's and DOE's high-risk areas. This work was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Failure to Match Requirements with Technology and Other Resources Underlie Poor Weapons Program Outcomes and Undermine Accountability

Since fiscal year 2000, DOD has significantly increased the number of major defense acquisition programs and its overall investment in them. During this same time period, acquisition outcomes have not improved. For example, in last year's assessment of selected DOD weapon programs, we found that total acquisition costs for the fiscal year 2007 portfolio of major defense acquisition programs increased by \$295 billion or 26 percent and development costs increased by 40 percent from first estimates—both of which are higher than the corresponding increases in DOD's fiscal year 2000 portfolio.⁴ In most cases, the programs we assessed failed to deliver capabilities when promised—often forcing warfighters to spend additional funds on maintaining legacy systems. Our analysis showed that current programs experienced, on average, a 21-month delay in delivering initial capabilities to the warfighter, a 5-month increase over fiscal year 2000 programs as shown in table 2. Continued cost growth results in less funding being available for other DOD priorities and programs, while continued failure to deliver weapon systems on time delays providing critical capabilities to the warfighter. We are currently updating our analysis and intend to issue our assessment of DOD's current portfolio later this month.

⁴GAO, *Defense Acquisitions: Assessments of Selected Weapon Programs*, [GAO-08-467SP](#) (Washington, D.C.: Mar. 31, 2008).

Table 2: Analysis of DOD Major Defense Acquisition Program Portfolios

Fiscal year 2008 dollars			
	Fiscal year		
	2000 portfolio	2005 portfolio	2007 portfolio
Portfolio size			
Number of programs	75	91	95
Total planned commitments	\$790 billion	\$1.5 trillion	\$1.6 trillion
Commitments outstanding	\$380 billion	\$887 billion	\$858 billion
Portfolio performance			
Change to total RDT&E costs from first estimate	27 percent	33 percent	40 percent
Change in total acquisition cost from first estimate	6 percent	18 percent	26 percent
Estimated total acquisition cost growth	\$42 billion	\$202 billion	\$295 billion
Share of programs with 25 percent or more increase in program acquisition unit cost	37 percent	44 percent	44 percent
Average schedule delay in delivering initial capabilities	16 months	17 months	21 months

Source: GAO analysis of DOD data.

Note: Data were obtained from DOD's Selected Acquisition Reports (dated December 1999, 2004, and 2006) or in a few cases, data were obtained directly from program offices. Number of programs reflects the programs with Selected Acquisition Reports. In our analysis we have broken a few Selected Acquisition Report programs (such as Missile Defense Agency systems) into smaller elements or programs. Not all programs had comparative cost and schedule data, and these programs were excluded from the analysis where appropriate. Also, data do not include full costs of developing Missile Defense Agency systems.

Several underlying systemic problems at the strategic level and at the program level continue to contribute to poor weapon system program outcomes. At the strategic level, DOD does not prioritize weapon system investments and the department's processes for matching warfighter needs with resources are fragmented and broken.⁵ DOD largely continues to define warfighting needs and make investment decisions on a service-by-service basis and assess these requirements and their funding implications under separate decision-making processes. Ultimately, the process produces more demand for new programs than available resources can support, promoting an unhealthy competition for funds that

⁵DOD has three major processes involved in making weapon system investment decisions, including the Joint Capabilities Integration and Development System for identifying warfighting needs; the Planning, Programming, Budgeting and Execution system, for allocating resources; and the Defense Acquisition System for managing product development and procurement.

encourages programs to pursue overly ambitious capabilities, develop unrealistically low cost estimates and optimistic schedules, and suppress bad news. Similarly, DOD's funding process does little to prevent programs from going forward with unreliable cost estimates and lengthy development cycles, which is not a sound basis for allocating resources and ensuring program stability. Invariably, DOD and Congress end up continually shifting funds to and from programs—undermining well-performing programs to pay for poorly performing ones.

At the program level, programs are started without knowing what resources will truly be needed and are managed with lower levels of product knowledge at critical junctures than expected under best practices standards. For example, in our March 2008 assessment, we found that only 12 percent of the 41 programs we reviewed had matured all critical technologies at the start of the development effort.⁶ None of the 26 programs we reviewed that were at or had passed their production decisions had obtained adequate levels of knowledge. In the absence of such knowledge, managers rely heavily on assumptions about system requirements, technology, and design maturity, assumptions that are consistently too optimistic. These gaps are largely the result of a lack of a disciplined systems engineering⁷ analysis prior to beginning system development, as well as DOD's tendency to allow new requirements to be added well into the acquisition cycle. This exposes programs to significant and unnecessary technology, design, and production risks, ultimately damaging cost growth and schedule delays. With high-levels of uncertainty about technologies, design, and requirements, program cost estimates and related funding needs are often understated, effectively setting programs up for failure.

When DOD consistently allows unsound, unexecutable programs to pass through the requirements, funding, and acquisition processes, accountability suffers. Program managers cannot be held accountable when the programs they are handed already have a low probability of success. Moreover, program managers are not empowered to make go or no-go decisions, have little control over funding, cannot veto new requirements, have little authority over staffing, and are frequently

⁶GAO-08-467SP

⁷"Systems engineering" translates customer needs into specific product requirements for which requisite technological, software, engineering, and production capabilities can be identified through requirements analysis, design, and testing.

changed during a program's development. Consequently, DOD officials are rarely held accountable for these poor outcomes, and the acquisition environment does not provide the appropriate incentives for contractors to stay within cost and schedule targets, making officials strong enablers of the status quo.

With regard to improving its acquisition of weapon systems, DOD has made changes consistent with the knowledge-based approach to weapons development that GAO has recommended in its work. In December 2008, DOD revised DOD Instruction 5000.02, which provides procedures for managing major defense acquisition programs in ways that aim to provide key department leaders with the knowledge needed to make informed decisions before a program starts and to maintain discipline once it begins. For example, the revised instruction includes procedures for the completion of key systems engineering activities before the start of the systems development, a requirement for more prototyping early in programs, and the establishment of review boards to monitor weapon system configuration changes. We have previously raised concerns, however, with DOD's implementation of guidance on weapon systems acquisition. At the same time, DOD must begin making better choices that reflect joint capability needs and match requirements with resources. DOD's investment decisions cannot continue to be driven by the military services that propose programs that overpromise capabilities and underestimate costs simply to start and sustain development programs.

Recent congressional actions, including efforts by your committees reflect the need for achieving better acquisition outcomes. We commend this Committee for forming a special panel on Defense Acquisition Reform to address broad issues surrounding the defense acquisition process including how to evaluate performance and value in the current system, the root causes of system failures, the administrative and cultural pressures that lead to negative outcomes, and the reform recommendations of previous studies. The Senate Committee on Armed Services also has proposed legislation with provisions to strengthen DOD's acquisition processes including provisions to improve systems engineering, developmental testing, technology maturity assessments, independent cost estimates and the role of the combatant commanders, among other provisions.

DOD Continues to Face Longstanding Challenges Managing Service Contracts and Contractors

DOD Has Yet to Fully Assess Which Functions and Activities Should Be Performed by Contractors, Limiting Its Ability to Mitigate Risks

DOD relies increasingly on contractors to support its missions and operations. For example, DOD estimated that more than 230,000 contractor personnel were supporting operations in Iraq and Afghanistan as of October 2008. Officials have stated that without a significant increase in its civilian and military workforce, the department is likely to continue to rely on contractors both in the United States and overseas. Contractors can provide important benefits, such as flexibility to fulfill immediate needs. But, using contractors also comes with inherent risks, which must be mitigated through effective management.

DOD's reliance on contractors has not been the result of a strategic or deliberate process but instead resulted from thousands of individual decisions to use contractors in specific situations. DOD's longstanding guidance for determining the appropriate military, civilian, and contractor mix needed to accomplish the department's mission, focuses on individual decisions of whether to use contractors to provide specific capabilities and not the overarching question of what the appropriate role of contractors should be. We have repeatedly called for DOD to be more strategic in how it uses contractors.⁸ Without a fundamental understanding of when, where, and how contractors should or should not be used, DOD's ability to mitigate the risks associated with using contractors is limited.

Our work has highlighted risks, which include differing ethical standards, diminished institutional capacity, potentially greater costs, and mission risks. For example:

- Contractor employees often work side-by-side with government employees, performing such tasks as studying alternative ways to acquire desired capabilities, developing contract requirements, and

⁸GAO, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*, [GAO-08-572T](#) (Washington, D.C.:Mar. 11, 2008).

advising or assisting on source selection, budget planning, and award-fee determinations. Contractor employees are generally not subject, however, to the same laws and regulations that are designed to prevent conflicts of interests among federal employees.⁹

- Reliance on contractors can create mission risks when contractors are supporting deployed forces. For example, because contractors cannot be ordered to serve in contingency environments, the possibility that they will not deploy can create risks that the mission they support may not be effectively carried out. Further, if commanders are unaware of their reliance on contractors, they may not realize that substantial numbers of military personnel may be redirected from their primary responsibilities to provide force protection or assume functions anticipated to be performed by contractors, and commanders therefore may not plan accordingly. The Chairman of the Joint Chiefs of Staff has directed the Joint Staff to examine the use of DOD service contracts (contractors) in Iraq and Afghanistan in order to better understand the range and depth of contractor capabilities necessary to support the Joint Force.
- One underlying premise of using contractors is that doing so will be more cost-effective than using government personnel. This assumption may not always be the case. In one instance, we found that the Army Contracting Agency's Contracting Center of Excellence was paying up to 27 percent more for contractor-provided contract specialists than it would have for similarly graded government employees.¹⁰

DOD Continues to Face Challenges in Employing Sound Business Practices When Contracting for and Managing Service Contracts

Once the decision has been made to use contractors to support DOD's missions or operations, it is essential that DOD clearly define its requirements and employ sound business practices, such as using appropriate contracting vehicles. Our work, however, has identified weaknesses in DOD's management and oversight, increasing the government's risk. For example,

- In June 2007, we found significant use of time-and-materials contracts.¹¹ These contracts are considered high risk for the government because

⁹GAO, *Defense Contracting: Additional Personal Conflict of Interest Safeguards Needed for Certain DOD Contractor Employees*, [GAO-08-169](#) (Washington, D.C.: Mar. 7, 2008).

¹⁰GAO, *Defense Contracting: Army Case Study Delineates Concerns with Use of Contractors as Contract Specialists*, [GAO-08-360](#) (Washington, D.C.: Mar. 26, 2008).

¹¹GAO, *Defense Contracting : Improved Insight and Controls Needed over DOD's Time-and-Materials Contracts*, [GAO-07-273](#) (Washington, D.C.: June 29, 2007).

they provide no positive profit incentive to the contractor for cost control or labor efficiency and their use is supposed to be limited to cases where no other contract type is suitable. We found that DOD underreported its use of time-and-materials contracts; frequently did not justify why time-and-materials contracts were the only contract type suitable for the procurement; made few attempts to convert follow-on work to less risky contract types; and was inconsistent in the rigor with which contract monitoring occurred.

- In that same month, we reported that DOD needed to improve its management and oversight of undefinitized contract actions, under which DOD can authorize contractors to begin work and incur costs before reaching a final agreement on contract terms and conditions, including price.¹² The contractor has little incentive to control costs during this period, creating a potential for wasted taxpayer dollars. We found that the government's federal procurement data system did not track undefinitized contract actions awarded under task or delivery order contracts. Moreover, we found that the use of some undefinitized contract actions could have been avoided with better acquisition planning, that DOD frequently did not definitize the undefinitized contract actions within the required time frames thereby increasing the cost risk to the government, and that contracting officers were not documenting the basis for the profit or fee negotiated, as required.

In response to GAO's recommendations relative to time-and-materials contracts and undefinitized contract actions, DOD has taken actions to limit risk to the government under both circumstances.

Our previous work has also demonstrated that better collection and distribution of information on contract management could limit risks. For example:

- Our 2008 review of several Army service contracts found that contracting offices were not documenting contract administration and oversight actions taken in accordance with DOD policy and guidance. As a result, incoming contract administration personnel did not know whether the contractors were meeting their contract requirements effectively and efficiently and therefore were limited in their ability to make informed decisions related to award fees, which can run into the millions of dollars.¹³

¹²GAO, *Defense Contracting: Use of Undefinitized Contract Actions Understated and Definitization Time Frames often Not Met*, [GAO-07-559](#) (Washington, D.C.: June 19, 2007).

¹³[GAO-08-360](#).

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- In addition, several GAO reports and testimonies have noted that despite years of experience using contractors to support deployed forces in the Balkans, Southwest Asia, Iraq, and Afghanistan, DOD has made few efforts to systematically collect and share lessons learned regarding the oversight and management of contractors supporting deployed forces. As a result, many of the management and oversight problems we identified in earlier operations have recurred in current operations.

Workforce Issues Continue to Limit DOD's Ability to Provide Adequate Contract Oversight and Management

Properly managing the acquisition of contractor services requires a workforce with the right mix of skills and capabilities. Individuals and organizations involved in the acquisition process include not just the contracting officers who award contracts, but also those military and civilian officials who define requirements, receive or benefit from the services provided, and oversee contractor performance, including the Defense Contract Audit Agency (DCAA) and the Defense Contract Management Agency (DCMA).

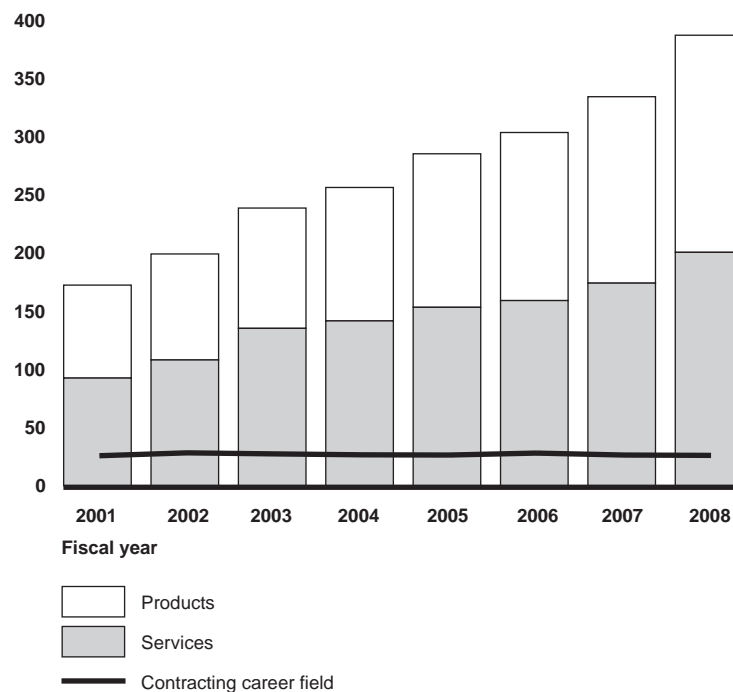
We and others have raised questions whether DOD has a sufficient number of trained acquisition and contract oversight personnel to meet its needs. For example, the increased volume of contracting is far in excess of the growth in DOD contract personnel. Between fiscal years 2001 and 2008, DOD obligations on contracts when measured in real terms, have more than doubled to over \$387 billion in total, and to more than \$200 billion just for services. Over the same time period, however, DOD reports its contracting career field grew by only about 1 percent as shown in figure 1. In 2008, DOD completed an assessment of its civilian contracting workforce to provide a foundation for understanding the skills and capabilities of its current workforce and to determine how to close any gaps. DOD has not yet completed its assessments of the competencies and skills in the rest of its acquisition workforce. To facilitate improvements to DOD's acquisition workforce, the National Defense Authorization Act for Fiscal Year 2008 required DOD to establish and dedicate funding to an Acquisition Workforce Development Fund.¹⁴ DOD is in the process of implementing this fund and has focused its efforts in three key areas:

¹⁴Pub. L. No. 110-181, § 852 (codified at 10 U.S.C. § 1705). The fund is financed by an amount equivalent to a portion of the military services' and defense agencies' expenditures for certain types of service contracts.

(1) recruiting and hiring, (2) training and development, and (3) retention and recognition. We are currently assessing DOD's ability to determine the sufficiency of its acquisition workforce and its efforts to improve its workforce management and oversight and will be issuing a report in the spring.

Figure 1: Changes in DOD's Contract Obligations and Contracting Workforce, Fiscal Years 2001 through Fiscal Year 2008

Dollars are constant fiscal year 2008 dollars (in billions)
Workforce (in thousands)



Source: GAO analysis, Federal Procurement Data System-Next Generation, DOD.

Having too few contract oversight personnel presents unique difficulties at deployed locations given the more demanding operational environment compared to the United States because of an increased operational tempo, security considerations, and other factors. We and others have found significant deficiencies in DOD's oversight of contractors because of an inadequate number of trained personnel to carry out these duties and the lack of training for military commanders and oversight personnel. As we testified in 2008, limited or no pre-deployment training on the use of contractor support can cause a variety of problems for military commanders in a deployed location, such as being unable to adequately

plan for the use of those contractors and confusion regarding the military commanders' roles and responsibilities in managing and overseeing contractors.¹⁵ Lack of training also affects the ability of contract oversight personnel to perform their duties.

While performing oversight is often the responsibility of military service contracting officers or their representatives, DCAA and DCMA play key roles in the oversight process. DCAA provides a critical internal control function on behalf of DOD and other federal agencies by performing a range of contract audit services, including reviewing contractors' cost accounting systems, conducting audits of contractor cost proposals and payment invoices, and providing contract advisory services to help assure that the government pays fair and reasonable prices. To be an effective control, DCAA must perform reliable audits. In a report we issued in July 2008, however, we identified a serious noncompliance with generally accepted government auditing standards at three field audit offices responsible for billions of dollars of contracting.¹⁶ For example, we found that workpapers did not support reported opinions and sufficient audit work was not performed to support audit opinions and conclusions. As a result, DCAA cannot assure that these audits provided reliable information to support sound contract management business decisions or that contract payments are not vulnerable to significant amounts of fraud, waste, abuse, and mismanagement. The DCAA Director subsequently acknowledged agencywide problems and initiated a number of corrective actions. In addition, DOD included DCAA's failure to meet professional standards as a material internal control weakness in its fiscal year 2008 agency financial report.¹⁷ We are currently assessing DCAA's corrective actions and anticipate issuing a report later this spring.

Similarly, DCMA provides oversight at more than 900 contractor facilities in the United States and across the world, providing contract administration services such as monitoring contractors' performance and management systems to ensure that cost, performance, and delivery

¹⁵GAO, *Military Operations: Implementation of Existing Guidance and Other Actions Needed to Improve DOD's Oversight and Management of Contractors in Future Operations*, [GAO-08-436T](#) (Washington, D.C.: Jan. 24, 2008).

¹⁶GAO, *DCAA Audits: Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated*, [GAO-08-857](#) (Washington, D.C.: July 22, 2008).

¹⁷DOD, *Fiscal Year 2008 Agency Financial Report, Department of Defense* (Washington, D.C.: Nov. 17, 2008).

schedules comply with the terms and conditions of the contracts. DCMA has also assumed additional responsibility for overseeing service contracts in Iraq, Afghanistan, and other deployed locations, including contracts that provide logistical support and private security services. In a July 2008 report, we noted that DCMA had increased staffing in these locations only by shifting resources from other locations and had asked the services to provide additional staff since DCMA did not have the resources to meet the requirement.¹⁸ As a result, it is uncertain whether DCMA has the resources to meet its commitments at home and abroad.

DOD Has Taken Some Steps to Address Service Contract Management and Oversight Challenges in Response to GAO Recommendations

GAO's body of work on contract management and the use of contractors to support deployed forces has resulted in numerous recommendations over the last several years. In response, DOD has issued guidance to address contracting weaknesses and promote the use of sound business arrangements. For example, in response to congressional direction and GAO recommendations, DOD has established a framework for reviewing major services acquisitions; promulgated regulations to better manage its use of contracting arrangements that can pose additional risks for the government, including time-and-materials contracts and undefinitized contracting actions; and has efforts under way to identify and improve the skills and capabilities of its workforce. For example, we reported in November 2008 that DOD has been developing, revising, and finalizing new joint policies and guidance on the department's use of contractors to support deployed forces (which DOD now refers to as operational contract support) and has begun to develop training programs for non-acquisition personnel to provide information necessary to operate effectively on contingency contracting matters and work with contractors on the battlefield.¹⁹

As the department moves forward, it needs to ensure that guidance is fully complied with and implemented. Doing so will require continued, sustained commitment by senior leadership to translate policy into practice and to hold decision makers accountable. In addition, at the

¹⁸GAO, *Rebuilding Iraq: DOD and State Department Have Improved Oversight and Coordination of Private Security Contractors in Iraq, but Further Actions Are Needed to Sustain Improvements*, [GAO-08-966](#) (Washington, D.C.: July 31, 2008).

¹⁹GAO, *Contract Management: DOD Developed Draft Guidance for Operational Contract Support but Has Not Met All Legislative Requirements*, [GAO-09-114R](#) (Washington, D.C.: Nov. 20, 2008).

departmentwide level, DOD has yet to conduct the type of fundamental reexamination of its reliance on contractors that we called for in 2008.²⁰ Without understanding the depth and breadth of contractor support, the department will be unable to determine if it has the appropriate mix of military personnel, DOD civilians, and contractors. As a result, DOD may not be totally aware of the risks it faces and will therefore be unable to mitigate those risks in the most cost-effective and efficient manner.

DOE's National Nuclear Security Administration Has Yet to Take Significant Action to Address Contract and Project Management Challenges

Contract and project management challenges are not unique to DOD. DOE manages over 100 construction projects with estimated costs over \$90 billion and 97 nuclear waste cleanup projects with estimated costs over \$230 billion. DOE is the largest civilian contracting agency in the federal government, spending about 90 percent of its budget on contracts. It has about 14,000 employees to oversee the work of more than 93,000 contractor employees. While other DOE program offices have recently made progress, the National Nuclear Security Administration (NNSA), which is responsible for maintaining the safety and reliability of the nuclear weapons stockpile, remains on our High-Risk List for continued weaknesses in contract and project management.²¹ As the largest component organization within DOE, the NNSA has an annual budget of approximately \$9 billion for the management and security of the nation's nuclear weapons, nuclear nonproliferation, and naval reactors programs. For the past 2 years, we have been reporting on the lack of sufficient action by NNSA as well as specific projects that continue to face contract and project management challenges. For example, on March 4, 2009,²² we testified on, among other things, significant cost overruns and schedule delays on five of NNSA's largest construction projects.²³ These construction projects experienced cumulative cost increases of nearly \$6 billion above the initial cost estimates. These projects also experienced cumulative schedule delays in excess of 32 years above initial estimates. Though some of the cost and schedule delays can be tied to increased cost

²⁰GAO-08-436T.

²¹DOE's Office of Environmental Management also remains on the High-Risk List.

²²GAO, *Department of Energy: Contract and Project Management Concerns at the National Nuclear Security Administration and Office of Environmental Management*, [GAO-09-406T](#), (Washington, D.C.: Mar. 4, 2009).

²³GAO, *Department of Energy: Major Construction Projects Need a Consistent Approach for Assessing Technology Readiness to Help Avoid Cost Increases and Delays*, [GAO-07-336](#) (Washington, D.C.: Mar. 27, 2007).

of materials and labor, most of these cost and schedule increases were the result of poor performance on the part of NNSA and its contractors. Specifically, we have found NNSA in some instances:

- failed to follow its own project guidance,
- produced internal cost and schedule estimates for projects that are not credible,
- conducted insufficient and ineffective project reviews,
- relied on technologies without assessing their readiness, and
- lacked sufficient federal staffing and expertise for project management oversight.

We have made a series of recommendations to strengthen DOE's and NNSA's contract management, which collectively call for the agencies to take the following actions:

- ensure that project management requirements are consistently followed,
- improve oversight of contractors, and
- strengthen accountability for performance.

DOE and NNSA have generally agreed with our recommendations and, over the last 2 years, have been working to better understand the underlying weaknesses in contract and project management and develop appropriate corrective actions to address the weaknesses. As part of the Office of Management and Budget initiative for federal agencies to develop detailed corrective action plans for high-risk areas, DOE obtained input from headquarters and field officials, including NNSA officials, with contract and project management expertise to develop a root-cause analysis of NNSA's weaknesses. DOE then used this analysis to develop a corrective action plan and performance measures to assess progress.

However, we continue to believe that further improvements are needed. For example, as of the end of fiscal year 2008, NNSA had still not implemented any of the 21 recommendations we had made in January 2007 that were aimed, in part, at improving NNSA contractor oversight and project management.²⁴ More recently, in a March 2, 2009, report issued to

²⁴GAO, *National Nuclear Security Administration: Security and Management Improvements Can Enhance Implementation of the NNSA Act*, [GAO-07-428T](#) (Washington, D.C.: Jan. 31, 2007); and *National Nuclear Security Administration: Additional Actions Needed to Improve Management of the Nation's Nuclear Programs*, [GAO-07-36](#) (Washington, D.C.: Jan. 19, 2007).

this Committee's Strategic Forces Subcommittee, we found that NNSA and DOD have not effectively managed the project cost, schedule, and technical risks for programs to extend the lifetimes of two warheads in the nuclear weapons stockpile.²⁵ We are concerned that weaknesses, such as these, if left unaddressed, will impact NNSA's plans to modernize its infrastructure and create a smaller, more responsive nuclear weapon's complex as NNSA and DOD have recently proposed.²⁶ This effort, known as Complex Transformation, is expected to require tens of billions of dollars over several decades to complete.

The administration is placing greater emphasis on the need to address contracting related challenges governmentwide. President Obama has just issued an executive memorandum directing, in part, the Director of the Office of Management and Budget—in collaboration with the Secretary of Defense, the Administrator of the National Aeronautics and Space Administration, the Administrator of General Services, the Director of Personnel Management, and the heads of any other agencies that the Director of the Office of Management and Budget determines appropriate—to develop and issue government-wide guidance to assist agencies in reviewing, and creating processes for ongoing review of existing contracts in order to identify contracts that are wasteful, inefficient, or otherwise unlikely to meet the agencies needs, and to formulate corrective action in a timely manner. Congress is also emphasizing the need to address government-wide contracting related challenges. For example, in the National Defense Authorization Act for Fiscal Year 2008, Congress created the Commission on Wartime contracting to study federal agency contracting for the reconstruction, logistical support of coalition forces, and the performance of security functions, in Iraq and Afghanistan. The Senate Committee on Homeland Security and Governmental Affairs also recently announced the creation of a new Ad Hoc Subcommittee on Contracting Oversight.

²⁵GAO, *Nuclear Weapons: NNSA and DOD Need to More Effectively Manage the Stockpile Life Extension Program*, [GAO-09-385](#) (Washington, D.C.: Mar. 2, 2009).

²⁶GAO, *Nuclear Weapons: Views on NNSA's Proposal to Transform the Nuclear Weapons Complex*, [GAO-08-1032T](#) (Washington, D.C.: July 17, 2008).

Systemic Supply Chain Management Problems and Inadequate Plans Lead to Challenges in Meeting Warfighter Supply Requirements

Supply chain management continues to be on our high-risk list as a result of weaknesses in the DOD's management of supply inventories and responsiveness to warfighter requirements. The availability of spare parts and other critical supply items that are procured and delivered through DOD's supply chain network affects the readiness and capabilities of U.S. military forces, and can affect the success of a mission. DOD reported spending approximately \$178 billion on its supply chain in fiscal year 2007. While DOD has taken a number of positive steps toward improving its supply chain management, such as consolidating certain inventories in regional hubs and improving transportation management of military freight, it has continued to experience weaknesses in its ability to provide efficient and effective supply support to the warfighter. Consequently, the department has been unable to consistently meet its goal of delivering the "right items to the right place at the right time" to support the deployment and sustainment of military forces.

For example, the military services continued to have billions of dollars worth of spare parts that were in excess of current requirements, representing a significant portion of their inventories. For example, in our most recent reviews of inventory management, we found that, the Army and Navy, over a 4-year period from fiscal years 2004 to 2007, averaged an annual total of \$11 billion in inventory value (in constant fiscal year 2007 dollars) that exceeded current requirements. The Navy's portion of the total—\$7.5 billion—represented about 40 percent of the average annual value of its total inventory (\$18.7 billion). The Army's portion—\$3.6 billion—represented 22 percent of the average annual value of its total inventory (\$16.3 billion).²⁷ A major cause for the services' excess inventories was weakness in demand forecasting. Moreover, we noted a lack of metrics and targets focusing on the cost efficiency of inventory management.

²⁷GAO, *Defense Inventory: Army Needs to Evaluate Impact of Recent Actions to Improve Demand Forecasts for Spare Parts*. [GAO-09-199](#). (Washington, D.C.: Jan. 12, 2009), and *Defense Inventory: Management Actions Needed to Improve the Cost Efficiency of the Navy's Spare Parts Inventory*. [GAO-09-103](#). (Washington, D.C.: Dec. 12, 2008). The Army data includes items managed by the Aviation and Missile Command and the Tank-automotive and Armaments Command.

In addition, DOD had not instituted a coordinated management approach to improving distribution and supply support for joint military operations,²⁸ and faced challenges in achieving widespread implementation of key technologies aimed at improving asset visibility.²⁹ We have also reported that DOD, as it looked ahead to drawing down its forces from Iraq, lacked a unified or coordinated command structure to plan for the management and execution of the return of material and equipment from Iraq, worth approximately \$16.5 billion. While the U.S. Central Command has recently taken steps to refine and solidify a theater logistics command to address these weaknesses, corrective actions have not yet been fully implemented.

DOD has recognized the need for a comprehensive, integrated strategy for transforming logistics and in July 2008 released its Logistics Roadmap with the intent to provide a more coherent and authoritative framework for logistics improvement efforts, including supply chain management. However, we found that the road map was missing key elements that would make the information more useful for DOD's senior leaders.³⁰ First, it did not identify the scope of DOD's logistics problems or gaps in logistics capabilities. Second, it lacked outcome-based performance measures that would enable DOD to assess and track progress toward meeting stated goals and objectives. Third, DOD had not clearly stated how it intended to integrate the roadmap into DOD's logistics decision-making processes or who within the department was responsible for this integration.

DOD has generally concurred with our recommendations, and in some cases has committed to take action or has taken action. For example, when DOD updates the Logistics Roadmap later this year, DOD plans to remedy some of the weaknesses we identified. To successfully resolve key supply chain management problems, DOD needs to:

²⁸ After we reported on DOD's efforts to improve joint theater logistics, DOD in July 2008 revised joint doctrine to, among other things, better define the joint deployment and distribution enterprise, incorporate U.S. Transportation Command's role as the department's Distribution Process Owner, and introduce joint logistics imperatives. However, we have not determined the extent to which the revised doctrine has resulted in a more coordinated approach to improving joint theater logistics.

²⁹ GAO, High-Risk Series, An Update, [GAO-09-271](#).

³⁰ GAO, *Defense Logistics: Lack of Key Information May Impede DOD's Ability to Improve Supply Chain Management*. [GAO-09-150](#). (Washington, D.C.: Jan. 12, 2009).

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- sustain top leadership commitment and long-term institutional support for the Logistics Roadmap and demonstrate progress in achieving the objectives in the road map;
 - address the elements missing from its Logistics Roadmap, to ensure that the road map provides a comprehensive, integrated strategy for guiding supply chain management improvement efforts;
 - conduct systematic evaluations of demand forecasting used for inventory management to identify and correct weaknesses and establish goals and metrics for tracking and assessing the cost efficiency of inventory management;
 - develop and implement a coordinated and comprehensive management approach to guide and oversee efforts across the department to improve distribution and supply support for U.S. Forces in a joint theater;
 - collect cost and performance data on the initial implementation of asset visibility technologies, analyze the return on investment for these technologies, and determine whether they have received sufficient funding priority; and
 - take steps to fully implement DOD's recent initiative to establish a unified or coordinated chain of command over logistics operations in support of the retrograde of equipment and materiel from Iraq, and correct incompatibility weaknesses in the various data systems used to maintain visibility of equipment and materiel while they are in-transit.

Achieving and sustaining progress will require commitments and a coordinated management approach at the highest level of the department as well as the military services and other DOD components.

Weaknesses in Financial Management Adversely Affect DOD's Ability to Effectively Manage and Account for Its Resources and Assets

Efficient and effective management and accountability of DOD's hundreds of billions of dollars worth of resources require timely, reliable, and useful information. However, DOD's pervasive financial and related business management and system deficiencies continue to adversely affect its ability to control costs; ensure basic accountability; anticipate future costs and claims on the budget; measure performance; maintain funds control; prevent and detect fraud, waste, and abuse; and address pressing management issues. To date, while the U.S. Army Corps of Engineers, Civil Works has achieved a clean audit opinion on its financial statements, none of the military services have. For many years, DOD has annually acknowledged that long-standing weaknesses in its business systems and processes have prevented auditors from determining the reliability of DOD's financial statement information. We also have previously reported that a weak overall control environment and poor internal controls limit DOD's ability to prevent and detect fraud, waste, abuse, and improper

payments. For example, before awarding contracts or making purchases from the General Services Administration's Federal Supply Schedule, contracting officers and other agency officials are required to check the Excluded Party List System to ensure that a prospective vendor is not prohibited from doing business with the federal government. However, in February 2009, we reported that failure to follow contract award procedures resulted in DOD's contracting officers making awards to debarred or suspended companies.³¹

Over the years, DOD has initiated numerous efforts intended to improve its financial management practices. In response to a congressional mandate, DOD issued its Financial Improvement and Audit Readiness (FIAR) Plan in December 2005, which it updates twice a year, to outline its strategy for addressing its financial management challenges and achieving clean audit opinions. In addition, DOD has taken steps toward developing and implementing a framework for addressing its long-standing financial management weaknesses and improving its capability to provide timely, reliable, and relevant financial information for decision making and reporting, a key defense transformation priority. This framework includes a Standard Financial Information Structure and Business Enterprise Information System, intended to provide standardization in financial reporting. DOD's efforts should help to improve the consistency and comparability of its financial information and reporting; however, a great deal of work needs to be done. In particular, data cleansing, improvements in policies, processes, and controls; as well as successful system implementations are needed to improve DOD's financial management and reporting.

We are in the process of reviewing the department's September 2008 FIAR Plan to determine if there are any areas where improvements are needed to enhance the plan's effectiveness as a management tool for guiding, monitoring, and reporting on the department's efforts to identify and resolve its financial management weaknesses and achieve financial statement auditability. We will provide the Committee a copy of the report when it is issued. Key to successful transformation of DOD's financial management operations will continue to be:

³¹GAO, *Excluded Parties List System: Suspended and Debarred Businesses and Individuals Improperly Receive Federal Funds*. [GAO-09-174](#) (Washington, D.C., Feb. 25, 2009).

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- development and sustained implementation of a comprehensive and integrated financial management transformation strategy, within an overall business transformation strategy, to guide financial management improvement efforts,
 - prioritization of initiatives and resources, and
 - monitoring of progress through the establishment and utilization of cascading performance goals, objectives, and metrics.

Opportunities Exist to Build on Recent Progress to Strengthen DOD's Civilian Human Capital Strategic Plan

We designated strategic human capital management as a high risk area because of the federal government's long-standing lack of a consistent approach to human capital management and the continuing need for a governmentwide framework to advance human capital reform. Like other federal agencies, DOD also faces challenges in managing its human capital, particularly with its civilian workforce. With almost 30 percent of its total civilian workforce (about 670,000) becoming eligible to retire in the next few years,³² DOD may be faced with deciding how to fill numerous mission-critical positions—positions that involve developing policy, providing intelligence, and acquiring weapon systems. Having the right number of civilian personnel with the right skills is critical to achieving the department's mission.

In recent years, Congress has passed legislation requiring DOD to conduct human capital planning efforts for the department's overall civilian workforce and its senior leaders. Specifically, the National Defense Authorization Act for Fiscal Year 2006³³ requires DOD to develop a strategic human capital plan, update it annually through 2010, and address eight requirements. The National Defense Authorization Act for 2007³⁴ added nine requirements to the annual update to shape DOD's senior leader workforce.

In February 2009, we reported while DOD's 2008 strategic human capital plan update, when compared with its 2007 plan, showed progress in addressing the National Defense Authorization Act for Fiscal Year 2006

³²This figure represents data as of December 31, 2008.

³³National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163, §1122 (2006).

³⁴John Warner National Defense Authorization Act for Fiscal Year 2007, Pub. L. No. 109-364 (2006).

requirements, it only partially addressed each of the act's requirements.³⁵ For example, DOD identified 25 critical skills and competencies—referred to as enterprisewide mission-critical occupations, which included logistics management and medical occupations. The update, however, did not contain assessments for over half of the 25 occupations, and the completed assessments of future enterprisewide mission-critical occupations did not cover the required 10-year period. Also, DOD's update only partially addressed the act's requirements for a plan of action for closing the gaps in DOD's civilian workforce. Although DOD recently established a program management office whose responsibility is to monitor DOD's updates to the strategic human capital plan, the office, at the time of our review, did not have and did not plan to have a performance plan that articulates how the legislative requirements will be met. Until such a plan is developed, DOD may not be well positioned to design the best strategies to meet its civilian workforce needs.

Regarding plans for DOD's senior leader workforce, DOD's 2008 update and related documentation addressed four of the nine requirements in the fiscal year National Defense Authorization Act for Fiscal Year 2007, but only partially addressed the remaining five. For example, DOD's update notes that the department has not completely addressed the requirement to assess its need for senior leaders. Although DOD recently established an executive management office to manage the career life cycle of DOD senior leaders, as well as the National Defense Authorization Act for Fiscal Year 2007 requirements, this office, at the time of our review, did not have and did not plan to develop a performance plan to address the national defense authorization act requirements. Until DOD develops a performance plan to guide its efforts to strengthen its human capital strategic planning, it may be unable to design the best strategies to meet its senior leader workforce needs.

³⁵GAO, *Human Capital: Opportunities Exist to Build on Recent Progress to Strengthen DOD's Civilian Human Capital Strategic Plan*, [GAO-09-235](#) (Washington, D.C.: Feb. 10, 2009).

Ensuring Effective Protection of Technologies Is Critical to U.S. National Interests

We designated the effective protection of technologies critical to U.S. national interests as a high risk area due to weaknesses GAO identified in the effectiveness and efficiency of government programs designed to protect such technologies. The U.S. government approves selling DOD weapon systems and defense-related technologies overseas for foreign policy, security, and economic reasons and has a number of long-standing programs to identify and protect critical technologies from reverse engineering and illegal export. These include the anti-tamper program,³⁶ militarily critical technologies program, and the export controls systems for defense-related and dual-use items. DOD is responsible for implementing several of these programs and is a key stakeholder in others. We have identified actions specific to DOD, including that it needs to:

- develop and provide departmentwide guidance to program managers in how to implement anti-tamper protection³⁷,
- develop an approach to identify and catalogue technologies that best meet the needs of U.S. government programs that control militarily critical technologies³⁸, and
- resolve disagreements with the Department of State on export control exemption use and guidelines.³⁹

While actions at the agency level can lead to improvements, agencies have yet to take action to address our major underlying concern, which is the need for a fundamental re-examination of current government programs and evaluate the potential of alternative approaches to protect critical technologies.

³⁶The purpose of this program is to establish anti-tamper techniques on weapon systems when warranted as a method to protect critical technologies.

³⁷Defense Acquisitions: *Departmentwide Direction is Needed for Implementation of the Anti-tamper Policy*. GAO-08-91.(Washington, D.C.: January., 2008).

³⁸GAO-08-91.

³⁹Defense Trade: *Clarification and More Comprehensive Oversight of Export Exemptions Certified by DOD Are Needed*. GAO-07-1103. (Washington, D.C.: Sept. 19, 2007).

The Federal Government, Including DOD, Faces Challenges in Protecting Information Systems and Critical Infrastructures

Federal agencies, including DOD, face challenges in protecting the security of information technology systems—commonly referred to as cybersecurity, including those systems that support our nation’s critical infrastructures (e.g., power distribution system, telecommunications networks). Long-standing, pervasive security control weaknesses continue to place national, federal, and DOD assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. Well publicized computer-based attacks against information technology systems in the United States and other countries show these threats pose a potentially devastating impact to federal systems and operations and the critical infrastructures.

To address the threats, the President in January 2008 began implementing a series of initiatives—called the Comprehensive National Cybersecurity Initiative—aimed primarily at improving the security of DOD and other information technology systems within the federal government. More recently, in February 2009, the new President initiated a review of the government’s overall cybersecurity strategy and supporting activities with the goal of reporting its finding in April 2009. We currently have work under way for this Committee’s Subcommittee on Terrorism and Unconventional Threats and Capabilities to assess the interagency Comprehensive National Cyber Initiative and its results. We are also examining the progress DOD has made in developing its organizational structure, policies, plans, doctrine, and capabilities for cyber defensive and offensive operations.

DOD Has Made Progress in Establishing Key Management Positions for Business Transformation, but Critical Actions Are Still Needed

Without sustained leadership and comprehensive strategic planning, DOD’s ability to achieve and sustain measurable progress in addressing high-risk areas and thereby improving its business operations is at risk. We have long advocated that DOD establish a Chief Management Officer (CMO) to be responsible and accountable for the department’s business transformation and a strategic planning process to direct its efforts and measure progress. DOD’s senior leadership has shown a commitment to transforming business operations and taken many steps to strengthen its management approach, both in response to congressional requirements and on its own accord. For example, the Secretary of Defense designated the Deputy Secretary of Defense as CMO of the department in May 2007. The National Defense Authorization Act for Fiscal Year 2008 subsequently

codified the position, created a Deputy CMO, directed that CMO duties be assigned to the Under Secretary of each military department, and required DOD to develop a strategic management plan for business operations.⁴⁰ In 2008, DOD issued its first Strategic Management Plan, which it characterizes as a first step toward providing Congress with the comprehensive plan required by law and as a primer for incoming officials that describes newly established and existing structures and processes within DOD to be used by the CMO for delivering effective and efficient support to the warfighter.⁴¹ DOD also issued directives broadly defining the roles and responsibilities of the CMO and Deputy CMO,⁴² established a DCMO office, and named an Assistant Deputy CMO to lead the stand-up of the office prior to the nomination and filling of the Deputy CMO position. Prior to these actions, DOD had established various management and governance entities that, in addition to the CMO and Deputy CMO, will comprise the management framework for business transformation, such as the Defense Business Systems Management Committee and the Business Transformation Agency.

While DOD has taken several positive steps, it still lacks critical elements needed to ensure successful and sustainable transformation efforts. Specifically, it has not fully or clearly defined the authority, roles, and relationships for some positions and entities. For example, the Deputy CMO position has not been assigned clear decision making authority or accountability for results, and the position appears to be advisory in nature. Therefore, it is unclear how the creation of the Deputy CMO position changes the existing structure of DOD's senior leadership. It is also unclear how the Deputy CMO will work with other senior leaders across the department who have responsibility for business operations and who are at the same level or even higher, such as the various Under Secretaries of Defense and the military department CMOs. The roles and relationships of various governance entities are similarly unclear.

In addition, DOD's first Strategic Management Plan lacks key information and elements of a strategic plan. For example, it does not clearly define business operations; does not contain goals; objectives; or performance

⁴⁰Pub. L. No. 110-181 §904 (2008).

⁴¹Department of Defense, *Strategic Management Plan*, July 28, 2008.

⁴²Department of Defense Directive 5105.02, *Deputy Secretary of Defense* (Feb. 18, 2009) and Department of Defense Directive 5105.82, *Deputy Chief Management Officer (DCMO) of the Department of Defense* (Oct. 17, 2008).

measures; and does not assign accountability for achieving desired results in its transformation efforts. Therefore, the plan cannot be used to link resources to performance, measure progress, or guide efforts of the military components. DOD plans to update its Strategic Management Plan in July 2009 and every 2 years thereafter as required by the National Defense Authorization Act for Fiscal Year 2008.⁴³

We recognize that DOD has only recently established the CMO position and that DOD is in the early stages of implementation for several of its improvement efforts. To help DOD proceed with its efforts, the new administration needs to move quickly to nominate and fill key leadership positions that are currently vacant. These positions include the Deputy CMO and military department CMOs. Moving forward, DOD needs to further:

- define and clarify the roles, responsibilities, and relationships among the various positions and governance entities within DOD's management framework for business transformation, and
- develop its strategic management plan and implement a strategic planning process that will allow DOD to measure progress, establish investment priorities, and link resource needs to performance.

Because of the complexity and long-term nature of DOD's business transformation efforts, we have repeatedly advocated the need for the CMO to be a separate, full-time position with significant authority, experience, and a set term. As DOD continues to develop its approach and carries out planned additional actions, we remain open to the possibility of further progress and that these efforts will have a positive impact. However, because of the current statutory requirements and the roles and responsibilities currently assigned to key positions, it is still unclear whether DOD will provide the long-term sustained leadership needed to address these significant challenges in its business operations.

Concluding Observations

DOD and DOE have recognized they face challenges in the selected high risk areas we have outlined today and have taken some steps to address these challenges. However, the current fiscal climate presents an imperative for both agencies to refocus management attention and commitment at the highest levels and to aggressively take additional actions to achieve greater progress in the key business areas that underpin

⁴³Pub. L. No. 110-181 §904 (2008).

the ability to achieve mission success. As DOD moves forward, among other things, it will need to continue to reform its approach to acquiring major weapon system programs, fundamentally reexamine its reliance on contractors as well as take action to better size and train its contractor workforce, and develop and implement viable strategies for managing its supply chain and improving its financial management. For DOE's NNSA, it is important that actions be taken to improve contract and project management in order to reverse the historical trend of schedule delays, cost growth, and increased risks in its major projects.

As DOD and DOE compete for resources in a constrained fiscal environment, they can no longer afford to miss opportunities to achieve greater efficiencies and free up resources for higher priority needs. Furthermore, because of the complexity and magnitude of the challenges facing DOD in transforming its business operations, it will need strong and sustained leadership, as well as sound strategic planning to guide and integrate its efforts. The new Deputy Secretary of Defense has been given the unique opportunity to set the precedent going forward as DOD's statutory Chief Management Officer. It will be important within the first year of this administration, that the Deputy Secretary of Defense clearly articulate the department's expectations for this position, clarify the roles, responsibilities, and relationships among all individuals and entities that share responsibility for transforming DOD's business operations, and establish a strategic planning process to guide efforts and assess progress across the department.

Mr. Chairman and Members of the Committee, this concludes my statement. I would be happy to answer any questions you may have at this time.

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